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Subject: **Update - August 9, 2011 - What now?**
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PLANNING

Dear Clients,

With the S&P index down more than 18% in just under 2 weeks, I would expect the Federal Reserve to signal intervention (more printing money) into the financial markets. This belief rests upon the previous statements of Ben Bernanke, who said that if the economy showed signs of further weakness that the Fed would intervene again. Additionally, our government seems to believe it is up to them to assure everyone a job, house, two cars, one dog, one cat, and a goldfish. In short, our government believes it is up to them to determine the success or failure of each one of us. However, my beliefs are more in line with the words of the famous economist, Friedrich A. Hayek, who said that the economy isn't something you manage, the economy is each one of us, our hopes, aspirations, and dreams. Leave us alone.

The Fed

If the Fed does intervene by doing what they would call "QE3" or Quantitative Easing 3rd round, it will continue to fuel "bubbles" in commodities like gold, silver, copper, oil, wheat, etc. and we should see their prices rise further (the taller you are, the harder the fall.) Bernanke is scheduled to make a policy announcement today at 2:15 PM and we have to be careful not to get caught up in any new bubbles created by Fed action.

In the year 1913 President Woodrow Wilson signed into law the bill that created the Federal Reserve banking system in the US. In 1916, three years after its inception, President Wilson had this to say:

"I am a most unhappy man. I have unwittingly ruined my country. A great industrial nation is controlled by its system of credit. Our system of credit is concentrated. The growth of the nation, therefore, and all our activities are in the hands of a few men. We have come to be one of the worst ruled, one of the most completely controlled and dominated Governments in the civilized world, no longer a Government by free opinion, no longer a Government by conviction and the vote of the majority, but a Government by the opinion and duress of a small group of dominant men."

Different Economies. Different Opportunities

The fact is that we work and live within the context of a government and society that has embraced Keynesian economics (pro-government intervention) and we have to recognize that in managing investments. Hence, I do believe that the Fed will begin to intervene in some fashion. Also inherent in this system is the market's tendency to over-react both on the upward moves and the downward. It is that tendency that allows us to buy great companies at bargain prices.

I believe that the US economy and stock market will be stuck in a lower growth range until we pay down our debts, both as a government and a people, and the value of the US dollar devalues to equilibrium. However, I believe that there are great growth investments to be made in Asia. Asia has relatively low levels of unemployment. Indeed, it currently has the opposite problem—inflation. And although food prices and commodity prices have been a large part of the rise, inflation is present in Asia because the economies are fundamentally running near full capacity. Asia ex Japan has low levels of debt. On average, Asia's governments (excluding Japan) run debt at a little over half of GDP, compared to close to 100% in the U.S. and 80% in Western Europe (the G7 average, which includes Japan, is 118%). And with the exception of Australia and India, Asian countries are running current account surpluses. Not only has Asia been growing much faster (and is expected to grow 4 percentage points faster than the U.S. or Europe in the future) but that growth, too, has been driven by productivity-enhancing technological advancement. Yes, Asia is behind technologically, but that means it can grow profitably by adopting techniques that others already use. While Asian markets will "monkey-see-monkey-do" in the short run, over time they are fundamentally different than our market and should rebound much faster. That is our "opportunity" in the crisis.

Moving Forward

As we move further into the sell-off, I will be looking for the right opportunities to use some of the cash we have in bond funds the money market to buy into Asian companies and economies in the coming future. Please pray for God to grant me wisdom, discernment, and patience.

Have a great week and remember that the media is there to hypnotize you. Their main goal is for you to watch their channel 24 hours a day. Take it with a grain of salt.

Best Regards,

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